

**Public Wholesale Water Supply District #26
Chase County, Kansas**

**Regulatory Basis Financial Statement and
Independent Auditors' Report**

For the Year Ended December 31, 2019

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**Public Wholesale Water Supply District #26
Chase County, Kansas**

Regulatory Basis Financial Statement
For the Year Ended December 31, 2019

Table of Contents

	Page No.
Independent Auditors' Report	1-2
Summary Statement of Receipts, Expenditures, and Unencumbered Cash	3
Notes to the Financial Statement	4-9
Regulatory – Required Supplementary Information:	
Schedule 1 – Summary of Expenditures – Actual and Budget	10
Schedule 2 – Schedule of Cash Receipts and Expenditures	
Bond Principal and Interest Fund	11
Bond Reserve Fund	12
Short Lived Asset Replacement Fund	13
Water Project Fund	14
Water Utility Fund	15

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Independent Auditors' Report

To the Board
Public Wholesale Water Supply District #26
Chase County, Kansas

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Public Wholesale Water Supply District #26, Chase County, Kansas, a municipality, as of and for the year ended December 31, 2019 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the Public Wholesale Water Supply District #26, Chase County, Kansas prepared this financial statement to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on the U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Public Wholesale Water Supply District #26, Chase County, Kansas, as of December 31, 2019, or the changes in its financial position or cash flows for the year then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In my opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Public Wholesale Water Supply District #26, Chase County, Kansas, as of December 31, 2019, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory – Required Supplementary Information

My audit was conducted for the purpose of forming an opinion on the summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures (schedule 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement but are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Cindy Jensen CPA". The signature is written in a cursive, flowing style.

Cindy Jensen, CPA
October 3, 2020

Public Wholesale Water Supply District #26
Chase County, Kansas

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2019

	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances & Accounts Payable	Ending Cash Balance
Special Purpose Funds							
Bond P&I Reserve	64,162	0	109,992	109,767	64,387	0	64,387
Bond Reserve	33,034	0	11,007	0	44,041	0	44,041
Short Lived Asset Replacement	11,094	0	22,057	18,929	14,222	933	15,155
Capital Project Fund							
Capital Project	0	0	0	0	0	0	0
Business Fund							
Water	<u>22,566</u>	<u>0</u>	<u>275,154</u>	<u>302,934</u>	<u>(5,214)</u>	<u>11,637</u>	<u>6,423</u>
Total Reporting Entity	<u>\$ 130,856</u>	<u>\$ 0</u>	<u>\$ 418,210</u>	<u>\$ 431,630</u>	<u>\$ 117,436</u>	<u>\$ 12,570</u>	<u>\$ 130,006</u>

Composition of Cash Balance:

Checking-Operations	\$ 130,006
Checking-Grants	<u>0</u>
Total Reporting Entity	<u>\$ 130,006</u>

The accompanying notes are an integral part of this statement.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 1 – Summary of Significant Accounting Policies

The District has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the District's accounting policies are described below.

Financial Reporting Entity

Public Wholesale Water Supply District #26 (PWWS#26) was organized in 2012 as a quasi-municipal corporation governed by an appointed board, represented by each of the three participating entities; the City of Strong City, the City of Cottonwood Falls, and Chase County Rural Water District No. 1. The District has no related municipal entities.

Regulatory Basis Fund Types

The accounts of the District are organized and operated on the basis of funds, which are used to record the District's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State statutes. The following types of funds comprise the financial activities of the District:

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific regulatory receipt sources (other than Capital Project and tax levies for long term debt) that are intended for specified purposes.

Capital Project fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Bond & Interest fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Business fund – these funds are financed in whole, or in part, by fees charged to users of the goods and services.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures of the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables or any other assets, liabilities or deferred inflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 1 – Summary of Significant Accounting Policies (Cont)

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond & interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital project funds and the following special purpose funds: Short Lived Asset and Debt Reserve. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits by the governing body.

Note 2 – Stewardship, Compliance, and Accountability

Compliance with Finance-Related Legal and Contractual Provisions

References made herein to the statutes are not intended as interpretations of law but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

K.S.A.10-1113 requires that no indebtedness be created in a fund in excess of available monies in that fund. The ending balance in the Water fund was negative. Upon realization of the projected shortage, the district increased its' billing rates effective January 1, 2020.

Management is not aware of any other regulatory violations for the period covered by this audit.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 3 – Cash and Deposits

K.S.A. 9-1401 established the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - State statutes place no limit on the amount the Municipality may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2019.

At year-end, the carrying amount of the District's deposits was \$130,006. Actual bank statement balance was \$130,701. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. The bank balance was held at one bank resulting in a concentration of credit risk. The entire bank balance was covered by FDIC insurance. The District held no investments on December 31, 2019.

Note 4 – Contracts and Commitments

The District entered into a contract with the City of Strong City to obtain clerical services. PWWS#26 agrees to reimburse the City based on the hourly rate of the employee, including leave, benefits and employer payroll taxes plus an additional 10%. The term of the agreement is for one year and continues indefinitely until either party gives written notice.

The District entered into a contract with the City of Cottonwood Falls and the City of Strong City to obtain water system operator services. The City of Strong City agrees to operate the plant on Monday through Friday. The City of Cottonwood Falls will operate the plant when Strong City personnel are absent and shall alternate holiday and weekend duties with Strong City personnel. The District agrees to reimburse the Cities based on the hourly rate of the employee, including leave, benefits, and employer payroll taxes plus an additional 10%. The term of the agreement is for one year and continues indefinitely until either party gives written notice.

The District entered into agreements with the City of Strong City, the City of Cottonwood Falls, and Chase County Rural Water District #1 for the sale of water. The initial sales price of water will be \$5.29 per thousand gallons and each entity agrees to purchase a minimum quantity to help defray the payment of debt service and production of water. The contracts extend forty years from the date of the initial delivery of water.

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 4 – Contracts and Commitments (Cont)

The District entered into contracts with the City of Strong City and the City of Cottonwood Falls to lease each City's existing water wells. The District will pay each entity \$100 annually for a term of forty years or as long as the lessee produces potable water in sufficient quantities, whichever occurs first.

Note 5 – Subsequent Events

On July 20, 2020, the District was notified that a grant in the amount of \$975,000 was received an Emergency Community Water Assistance Grant. The project will develop new wells and is projected to cost \$975,000.

Note 6 – Long-Term Debt

Series 2015 Revenue Bonds - The District issued \$2,359,000 of No-Fund warrants on May 30, 2013 to construct infrastructure for its water operations. The No-Fund warrants carried interest of 2.47% and one payment was scheduled May 30, 2016. This temporary financing was paid by the issuance of Series 2015-A Revenue bonds which were purchased by USDA Rural Development. On May 21, 2015, the District issued Series 2015-A and Series 2015-B Revenue bonds in the amount of \$2,359,000 and \$255,000 respectively. The bonds carry interest of 2.75%. Forty annual payments beginning June 25, 2016 are scheduled with the first principal payment on June 25, 2017 and the last payment June 25, 2055.

Changes in Long-Term debt for the year ended December 31, 2019 were as follows:

	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Due January 1	Additions	Reductions/ Payments	Balance Due December 31	Interest Paid
Series 2015A Rev Bds	2.75%	5/21/2015	2,359,000	6/25/2055	2,290,000	0	36,000	2,254,000	62,975
Series 2015B Rev Bds	2.75%	5/21/2015	255,000	6/25/2055	247,000	0	4,000	243,000	6,792
Total contractual indebtedness					<u>\$ 2,537,000</u>	<u>\$ 0</u>	<u>\$ 40,000</u>	<u>\$ 2,497,000</u>	<u>\$ 69,767</u>

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 6 – Long-Term Debt (Cont)

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

	Series 2015A	Series 2015A	Series 2015A	Series 2015B	Series 2015B	Series 2015B
	Revenue	Revenue	Revenue	Revenue	Revenue	Revenue
	Bonds	Bonds	Bonds	Bonds	Bonds	Bonds
Year	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 37,000	\$ 61,985	\$ 98,985	\$ 4,000	\$ 6,683	\$ 10,683
2021	38,000	60,967	98,967	4,000	6,572	10,572
2022	39,000	59,923	98,923	4,000	6,462	10,462
2023	40,000	58,850	98,850	4,000	6,353	10,353
2024	41,000	57,750	98,750	4,000	6,243	10,243
2025-2029	222,000	271,260	493,260	24,000	29,397	53,397
2030-2034	256,000	238,922	494,922	27,000	25,960	52,960
2035-2039	296,000	201,602	497,602	31,000	22,000	53,000
2040-2044	343,000	158,373	501,373	36,000	17,463	53,463
2045-2049	394,000	108,460	502,460	42,000	12,210	54,210
2050-2054	451,000	51,149	502,149	52,000	5,885	57,885
2055	97,000	2,667	99,667	11,000	302	11,302
	<u>\$ 2,254,000</u>	<u>\$ 1,331,908</u>	<u>\$ 3,585,908</u>	<u>\$ 243,000</u>	<u>\$ 145,530</u>	<u>\$ 388,530</u>

Public Wholesale Water Supply District #26
Chase County, Kansas

Notes to the Financial Statement
December 31, 2019

Note 7 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Commercial insurance is purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

Note 8 – Transfers

<u>From</u>	<u>To</u>	<u>Authority</u>	<u>Amount</u>
Water	Bond P&I Reserve	Bond Res May 21, 2015	\$ 109,992
Water	Bond Reserve	Bond Res May 21, 2015	11,007
Water	Short Lived Assets	USDA Letter of Conditions	22,057

Note 9 – Evaluation of Subsequent Events

Management has evaluated events through October 3, 2020, that date which the financial statement was available to be issued.

**Regulatory – Required
Supplementary Information**

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 1

Summary Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2019

	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
Special Purpose Funds					
Bond P&I Reserve	109,767	0	109,767	109,767	0
Business Fund					
Water	320,336	0	320,336	302,934	(17,402)

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 2A

Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2019

BOND PRINCIPAL & INTEREST RESERVE

	Current Year Actual	Budget	Variance Over (Under)
Receipts			
Transfers In	\$ 109,992	\$ 109,992	\$ 0
Other	0	805	(805)
Total Receipts	<u>109,992</u>	<u>110,797</u>	<u>(805)</u>
Expenditures			
Bond Principal & Interest	<u>109,767</u>	<u>109,767</u>	<u>0</u>
Receipts Over (Under) Expenditures	225	<u>\$ 1,030</u>	<u>\$ (805)</u>
Unencumbered Cash, January 1	<u>64,162</u>		
Unencumbered Cash, December 31	<u>\$ 64,387</u>		

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 2B

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2019

BOND RESERVE

	Current Year Actual
Receipts	
Transfer in	\$ 11,007
Other	0
Total Receipts	<u>11,007</u>
Expenditures	
Bond payments	0
Other	0
Total Expenditures	<u>0</u>
Receipts Over (Under) Expenditures	11,007
Unencumbered Cash, January 1	<u>33,034</u>
Unencumbered Cash, December 31	<u><u>\$ 44,041</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 2C

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2019

SHORT LIVED ASSET REPLACEMENT

	Current Year Actual
Receipts	
Transfers In	\$ 22,057
Other	0
Total Receipts	<u>22,057</u>
Expenditures	
Short Lived Asset Replacement	18,929
Other	0
Total Expenditures	<u>18,929</u>
Receipts Over (Under) Expenditures	3,128
Unencumbered Cash, January 1	<u>11,094</u>
Unencumbered Cash, December 31	<u><u>\$ 14,222</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 2D

Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2019

CAPITAL PROJECT

	Current Year Actual
Receipts	
USDA grant	\$ 0
Miscellaneous reimbursements	0
Interest	0
Total Receipts	<u>0</u>
Expenditures	
Project expenditures	0
Reimburse general fund expense	0
Local share preoperational costs	0
Total Expenditures	<u>0</u>
Receipts Over (Under) Expenditures	0
Unencumbered Cash, January 1	<u>0</u>
Unencumbered Cash, December 31	<u><u>\$ 0</u></u>

See Accompanying Auditor's Report.

Public Wholesale Water Supply District #26
Chase County, Kansas

Schedule 2E

Schedule of Receipts and Expenditures-Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2019

WATER FUND

	Current Year Actual	Budget	Variance Over (Under)
Receipts			
Water sales	\$ 271,650	\$ 295,000	\$ (23,350)
Interest	65	70	(5)
Transfer in	0	0	0
Other Receipts	3,439	2,700	739
Total Receipts	<u>275,154</u>	<u>297,770</u>	<u>(22,616)</u>
Expenditures			
Capital outlay	1,895	5,279	(3,384)
Chemicals	34,264	35,000	(736)
Contractual	24,464	20,000	4,464
Dues & fees	4,552	7,000	(2,448)
Equipment	0	5,000	(5,000)
Insurance	14,923	15,000	(77)
Operator & administrative reimbursements	38,718	40,000	(1,282)
Supplies & repairs	4,117	10,000	(5,883)
Telephone & utilities	36,499	40,000	(3,501)
Other expense	446	0	446
Loan payments	0	0	0
Transfers out	143,056	143,057	(1)
Total Expenditures	<u>302,934</u>	<u>320,336</u>	<u>(17,402)</u>
Receipts Over (Under) Expenditures	(27,780)	<u>\$ (22,566)</u>	<u>\$ (5,214)</u>
Unencumbered Cash, January 1	<u>22,566</u>		
Unencumbered Cash, December 31	<u>\$ (5,214)</u>		

See Accompanying Auditor's Report.